Condy Raguet

AN INQUIRY

INTO

THE CAUSES

OF THE

PRESENT STATE

OF THE

CIRCULATING MEDIUM

OF THE

UNITED STATES.

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ADVERTISEMENT.

THE following essays originally appeared, during the present month, in the "True American." A desire to excite inquiry upon a subject which interests the great body of his fellow citizens, has prompted the writer to republish them in a pamphlet form, in order that all the points which have been embraced, may be brought into one view.

Like others, who have attempted the investigation of abstract principles, he is aware of his liability to error, and, therefore, invites a fair and candid discussion of those positions upon which a difference of opinion may exist between him and others, who are disposed to give their sentiments to the public. R.

Philadelphia, August, 1815.

AN INQUIRY, &c.

NO. I.

THERE are few subjects more interesting to the community at the present period, or less understood, than that which we propose, in the following essays to investigate. Persons who have not been accustomed to examine into the nature of the principles upon which the monied and commercial operations of a nation are conducted, are ill qualified to form correct conceptions of any state which exhibits what they suppose to be symptoms of embarrassment. Their fears and alarms, grounded in the fallacy of *appearance*, conjure up ideal dangers, and increase rather than diminish the difficulties of which they complain.

Without pretending to a greater share of information upon the matter now before us, than others whose essays have already appeared, we shall endeavour to show,

1st. *The causes* which have produced a difference between the value of *specie* and *bank notes* in the middle and southern states, and

2ndly. *The causes* which occasion a difference of value between the bank notes of one city or state, and those of a distant place.

We shall then proceed to prove, that these relative values are consequent upon the mere course of trade—that they have no connexion with the good or bad credit of the banks, and that little or no evil will result to the country from the existing state of things.

And *first*, as to the causes which have produced a difference between the value of *specie* and *bank notes* in the middle and southern states.

We shall not in this inquiry revert to first principles and show the reasons why money was rendered necessary to determine the exchangeable value of different commodities, or why the precious metals have been, in modern times, preferred for this purpose to all other materials. It is sufficient for us to know, that the common consent of the whole civilized world has fixed upon specie or coin as the common instrument of commerce, and as the usual measure of value.

In the United States, as well as in other countries, before the institution of banks, specie formed the current medium of trade. But specie composed a great and a valuable portion of the wealth of the community, and from the nature of its employment, as the mere instrument of barter, it was entirely *unproductive*.—Ten millions of dollars employed as a circulating medium, could not add one cent to the value of the stock of the nation, whereas, if employed in foreign commerce, they would tend greatly to increase it.

The interests of individuals, therefore, continually prompting them to increase their wealth, and thereby that of the community—(for the wealth of the nation is the wealth of the individuals who compose it)—naturally suggested the plan of establishing banks, whereby some *other thing* possessing little value, could be substituted in the room of specie, and be made to perform the same services, and whereby that valuable portion of the national capital employed in unproductive uses, might be made to contribute to the wealth of the whole equally with any other commodity, by being converted into an article of traffic. Hence the great utility of banks, which, by rendering *paper*, an article of little value, equally serviceable with the metals, *gold* and *silver*, have enabled the latter, by their profitable employment in India, China, and else-

where, to be converted into merchandise of an infinitely greater value than they themselves bore at home.

Prior to the late war our country was amply stocked with specie. We had a sufficiency, not only for carrying on the general business of buying and selling at home, but for the purchase abroad of those articles of merchandise which could be more advantageously purchased with money than with other commodities. Although a vast sum was annually exported, and although the increase of our population demanded an increase of coin, yet we experienced no difficulties from the want of it, inasmuch as like every other article of value that could be profitably exchanged in America for other commodities, it was imported from the West Indies and from the Spanish possessions, in sufficient abundance to keep the market continually stocked. At that period a piece of coin was worth no more than a bank note—*not indeed* because there was in every bank a sufficiency of specie to pay all its notes, but because every bank had enough to pay that portion of them, which would, in the common course of transactions, be likely to be presented for payment.

As the confidence in banks increased, banks themselves increased—and specie became less re-

quired for the ordinary purposes of trade. This was the case particularly in the country, where few banks before existed, and as bank notes became more generally extended in circulation, not only did the use of specie decrease in transactions between individuals, but the banks saw less necessity for retaining in their vaults, the amounts, which, when confidence was less universal, they were obliged to keep on hand to meet occasional demands.

With the increase then of banks, the amount of specie in the country diminished. War ensued. Our importations of money gradually diminished as our coasts became blockaded. But the general belief that the banks could pay their notes in specie, for a long time continued—and whilst little was required for exportation, the state of the circulating medium remained unchanged.

At length, however, the government became embarrassed in its financial concerns. A dissolution of the union was apprehended—Cautious and timid men, who had recollected the depreciation of the continental money, during the revolution, became alarmed, and began to hoard up—Speculators anticipated a scarcity, and filled their coffers—Neutral vessels took off large sums from ports not blockaded, whilst a vast amount was transported to

Canada, and invested in British government bills at a profitable discount. Still the stock at market was a long time able to meet the demand, until a new state of things arose, which drained the middle and southern states of their dollars, and brought the banks to a suspension of specie payments.

The New-England states had latterly turned much of their attention to manufactures. Their ingenuity and economical habits gave them advantages which were not possessed by the neighbouring states, and hence they were able to supply the latter with commodities to an immense value, which every day, from the privation of British manufactures, became more valuable and more in demand. A pound of cotton, worth in Carolina but eight or ten cents, when wove into cloth, would, perhaps, command five or ten times that price; and thus by adding to the raw material simply *the value of their labour*, were they greatly adding to the wealth of their respective citizens.

In addition to this advantageous state of things, the eastern people enjoyed another source of revenue of which their neighbours were debarred. This was a relaxation of the British blockade in their favour, by which large importations of foreign merchandise enabled their merchants, by inland transportation, to supply the other states with what

they much wanted.—Whether or no this measure was adopted by the enemy with a view of embarrassing the monied operations of the country, we are not prepared to say.

These two sources of trade created a debt in favour of the eastern states, which could not easily be discharged. The value of the productions of the south, which they wanted in return, was by no means equal to their supplies, and thus was raised up a heavy balance of trade, of which payment was demanded. But how was this balance to be paid? Why certainly in the mode in which all balances between individuals, states, and nations are paid, when the debtor has no other equivalent to offer to the creditor, which he would find it his interest to take—*in money*. But what is money? A foreign *bank note* is not money to a man in New-England, who cannot pass it. *Specie* must be paid, for that is money every where. The manufacturer must have his capital replaced, or he cannot continue his trade. The merchant must have *his* replaced, that he may pay for the goods he has imported, in the article which the foreigner is willing to take. Thus the demand made by the eastern upon the other states for the payment of their debts, was perfectly natural, just, and wise; and if the latter chose to purchase goods which they could not pay for in the mode they had been

accustomed to do, it was their own fault, and they had no reason to complain. The demand arose from causes purely mercantile, and was founded upon the same principles of equity and fair dealing which exist between two honest individuals. Who would condemn the trader who should demand payment of his debtor in a mode pointed out by the laws of his country?

Well, the demand for payment is made upon the southern merchants by their eastern creditors—the banks are exhausted, and can no longer meet the call. Still, however, the balance must be paid, and if specie cannot be obtained at *par*, its old price; it must be purchased at a premium. Hence a gradual rise takes place. All the causes above assigned for decreasing the quantity at market, operate with renewed force, until at length *dollars* command an advance of twenty per cent. *and specie ceases any longer to perform the services of money.*

In this state of things, peace is announced—The fears of the timorous, the cautious, and prudent are dissipated. A general expectation that the banks will resume their payments in specie prevails—the chests and the secure places are unlocked, and hard money is again in the market at three or four per cent. above par.

But after a reasonable delay, it is ascertained that the banks do not pay specie, and that it will still command a premium. A large amount is wanted for China and India, and an eastern balance is still due. Soon, however, new causes arise to enhance its value still more. By some fortuitous circumstances in the importations from Great Britain, the first vessels arrived in the eastern states.—Added to this, several valuable cargoes were imported there from China. The want of English manufactures and China goods was so great, that an immense amount of those imported by the eastern merchants was sold to those of the south. This amount, added to the debt already due, and acruing for domestic manufactures, increased the balance of trade in favour of the eastward, and with it the value of specie.

Whilst operated upon by these causes, specie gradually rose in price, until news reached us from England that Spanish dollars were worth there a premium of twenty-five to thirty per cent. and gold still more. A large amount would be due to Great Britain for the cargoes imported thence, and specie thus affording a profitable remittance, was shipped from all the principal ports, and has continued gradually to rise to fifteen or sixteen per cent. its present rate.*

* When we speak of *specie* we allude generally to Spanish dollars. American silver is at two or three per cent. *less*, and foreign gold at two or more per cent. *above* that rate.

Specie, like every other article of value, has its fluctuations in price. It is dearest where it is most scarce, and cheapest where it is most abundant, and in this respect it differs nothing from any other species of merchandise. It is imagined by many persons, that in *all cases* where specie cannot be obtained for an equal nominal amount of paper money, the latter has depreciated. This is the case sometimes, but certainly not always, as will be evident from the following consideration. Suppose a community to substitute bank notes for coin to such an extent, that nine-tenths of the specie formerly required should be exported from the country, and that in such a situation, for some particular purpose, a large amount of specie was suddenly called for—what would be the result? Why that those who possessed the little there was, would demand an exorbitant price for it. Would any man say, because he could get one dollar of paper money for one fourth of that sum in silver, that the former had depreciated seventy-five per cent.? Certainly not; particularly if he found that his paper dollar would buy him as much provisions and clothing as it formerly would. And what is the actual state of things in this country? Paper money may have indeed depreciated *from its abundance*, like every other article of which the stock is greater than the demand; but it must

be recollected that that depreciation took place *before* the suspension of specie payments, by the banks. Its depreciation, therefore, is to be measured by its quantity, and not by its relation to specie.

A man may say that he cannot now buy with a bank note as much of many foreign or domestic productions as he formerly could. This may be true; but whence has this difference arisen? Not indeed from the depreciation of paper money, but from the *appreciation* of those commodities. From some change of circumstances in the affairs of the world, British manufactures and colonial produce *have risen in price abroad—Additional duties at home*, enhance still more their value, and an extraordinary demand, arising from the scarcity of the stock on hand, operates, as all demands do, to increase their price. *Domestic produce* rises by a kind of reaction, and by that general principle, which is continually operating in every society, to produce a fair exchange. This position was fully exemplified during the war. Instead of domestic produce *falling* in price from the obstacles to its exportation, as was generally anticipated, *it rose*, and as foreign goods appreciated, so did domestic produce. The farmer, when he finds foreign commodities too dear for his use, necessarily consumes more of his own productions—and thus, by re-

ducing the quantity that is brought to market, raises their price.

In Boston there was no suspension of specie payments. The banks have all along continued to pay their notes in coin. And why were they able to do this? Simply, because the sources of trade above mentioned, enabled them to keep all their neighbours in debt to them, by which their stock of specie was constantly renewed. Had the balance of trade been *against* them, the New-England states would have shared the fate of the rest, without the possibility of preventing it. But it may be asked, why did not the Boston banks suspend specie payments as matter of choice, inasmuch as by so doing, they would not have been liable to that oppressive run for specie, which has compelled them to reduce the amount of their discounts, and almost to withdraw from business? This question we answer thus: there exists a law of Massachusetts, which declares that a bank which refuses to pay its notes in specie, shall be liable to pay an exorbitant interest (of one, two or more per cent. a month) upon its dishonoured notes. This clause compelled their directors to make provision, whilst they were able, from the causes above assigned, for the payment of their notes, and by beginning at an early period to call in their loans, they have been enabled to maintain their ground.

From the foregoing arguments, we think it may be safely inferred—that paper money has not *depreciated*, in relation to specie; but that the latter, from its scarcity, has *appreciated*, and that so long as a scarcity here and a high price abroad continue, specie will be regarded as a mere article of commerce, and not as an instrument of exchange.

NO. II.

We shall now proceed, *in the second place*, to show the causes which occasion a difference of value between the bank notes of one city or state, and those of a distant place.

From the natural course of commerce which exists in every community, *individuals* become alternately indebted to one another. Banks also become debtors and creditors of each other, and so do cities, states, and nations. If one individual merchant owes a debt to another, sometimes the creditor finds it his interest to take from his debtor in payment of his demand, some article of merchandise, or other valuable commodity, which he is in want of, and thus can the negociation be settled without the intervention of money. But in order that no difficulty may arise to the creditor, from the refusal of the debtor to pay in any other mode than with merchandise, the Constitution of the United States declares that nothing but *coin* shall be made a legal tender.

Now it happens that in the prosecution of commerce between two distant cities or countries, one imports from the other, merchandise to a greater

value than her merchants are able to pay for, in *other merchandise*, which is wanted by the crediting city or nation. Hence arises what is called a balance of trade, and it is the same kind of debt which is owed by one *individual* to another.

In our importations from Great Britain, our merchants incur a vast debt to British merchants. This debt is paid,

By shipments of American produce direct to Great Britain;

By shipments of American and foreign produce to the continent of Europe; the proceeds of the sales of which are remitted to England;

By remittances of British government and mercantile bills of exchange, purchased in Canada, the West Indies, and elsewhere, or sent to the United States, for the purchase of produce by British and other merchants.

If the debt due to a foreign nation be greater than can be paid by the indebted nation in its produce, or in the proceeds of it shipped abroad, a balance of trade becomes due, and this balance must be paid in that general article of merchandise called *specie*, which is an article of value

every where, and is what every nation wants. If specie, from its scarcity, cannot be obtained, then the balance cannot be paid immediately, and the crediting nation will be obliged to wait for payment, until the debtor is enabled to discharge his debt by one of the modes within his power.

In the meantime, however, the creditor is desirous of having his capital replaced, and the consequence is, that as one class of merchants want more funds to remit, than another class can draw for, a competition takes place, and bills of exchange, like every other article, for which the demand is greater than the stock at market can supply—rise in value, and command a premium. The reverse is the case where the sum to be drawn for is *greater* than the wants of the market. In that case bills depreciate, and thus a constant fluctuation (always tending, however, to an equilibrium) exists. But it must be observed, that the *agio* upon bills of exchange, is not altogether proportioned to the amount wanted and to the sum which can be drawn for. For instance, if *ten* millions were wanted and *five* only could be drawn for, bills would not command *double* their nominal value. The debtor rather than incur so great a loss, would wait until he could pay his account in the ordinary modes, and the result would therefore be, that he would reduce the amount of his importa-

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tions, until he had time to extinguish his debts. The premium upon bills of exchange, therefore, is, in part, a kind of compensation to the person who is willing to loan his capital, until the debtor can discharge his obligations in the usual mode, and, therefore, more properly bears a proportion to the *time* at which this can be effected, than to the actual demand and stock at market.

Such being the nature of commercial transactions, between distant nations, there is no reason why the same relation may not exist between neighbouring states and cities. The same causes will produce the same effects; and if *specie*, the universal article of traffic, is not to be obtained for the payment of balances of trade, an *agio* of exchange will always exist.

In dealings between the merchants of our cities and interior country, bank notes have heretofore been the general instrument of trade, as well as of exchange. Their convenient construction, cheap transportation, and above all, the high confidence that exists in their value, have well adapted them for these purposes. But a bank note has no more right to claim currency in a strange or distant place, than the promissory note of *an individual*, for it is at best but the promissory note of a *number of individuals*. Its uniform value *at home*

is derived entirely from the same sort of confidence which renders the note of a responsible merchant, current where he resides, and yet a merchant would be laughed at who would suppose that his note should be current at a distance from home. Hence then it follows, that as a bank note can only answer the purposes of money, where every body is willing to receive it as such, it ceases to be money when it gets among people who are not willing to give it general currency. It then becomes like other commodities of value, *a mere article of merchandise*, and in this light only can it be regarded when it has travelled to a distant place.

How then, it will be asked, is its value abroad to be determined? The answer is plain. By the same rules and principles that establish the price of all other commodities, namely, the quantity at market, the demand, and the probable time at which the causes which produce its variation shall have ceased to operate. Its value, therefore, will be determined by the course of trade, and the balance thence resulting, and hence it appears evident that the difference in the value of the notes of two distant banks does not arise from any want of confidence in the one, but from the natural and unavoidable operation of a free commerce.

We have above enumerated the several causes which have produced balances of trade against th

middle and southern, and in favour of the eastern states—namely:

The immense amount of domestic manufactures exported from New-England to the other states—and,

The great value of foreign produce and manufactures, imported by them and shipped to the south, before their own regular importations were made by the middle and southern states.

The influence of these causes has extended from New-Hampshire to Georgia, and hence in all intermediate places exchanges bear different *agios, and thus determine the relative value of bank notes.* To give an idea of this course of exchange, to those who are unacquainted therewith, we shall quote below in a note,* the rates as they have latterly existed at Philadelphia, with some slight oc-

* NOTE.

Exchange upon Boston,	15 to 16	per cent.	advance.
New-York,	4 to 5	do.	do.
Baltimore, Washington, Alexandria,	2½ to 3	do.	discount.
Richmond,	2 to 2½	do.	do.
Western country,	3½ to 5	do.	do.
North-Carolina, at par.			
th Carolina and Georgia,	3 to 4	per cent.	advance.

casional variations. With respect to the states south of Virginia, although their commerce with New-England has been productive of an agio against them, yet that agio is not as great as that which exists against the middle states. But their commerce with the middle states has produced an agio in their favour, which has been occasioned by their exportations to those states, and to foreign countries upon the account of northern merchants, produce to a greater value, than the amount of the commodities which they require to be shipped to them in payment.

We cannot always ascertain from the agio of exchange, the actual profitable or unprofitable course of the *direct trade* between any two given places. As for instance the *direct trade* or mutual exchange of commodities between Boston and Norfolk, might be *in favour* of the latter; yet if Norfolk were heavily indebted to some other city, and that city to Boston, the agio of exchange at Boston might be *against* Norfolk.

Of this nature do we consider the course of exchange between Philadelphia and Baltimore. The latter owes a balance to the former. This balance, we apprehend, is not the result of any direct trade between those two cities, but arises from the intervention of a third party, viz: *the interior*

of Pennsylvania. A great amount of the produce of our state is sold at the Baltimore market and paid for in the notes of that city, which being circulated through the country, are brought to Philadelphia, by the merchants for the purchase of goods.

Between Philadelphia and the Western country there is a balance of trade in favour of the city. This arises from a demand throughout the interior, for a greater value of foreign commodities than the country is at this time able to pay for in domestic products. It is a state of things which ought not long to exist, and has its rise in the great necessities of the people, disproportioned to all former years, from the almost entire consumption of their stock of foreign manufactures, which has obliged them since the conclusion of the peace, to purchase to a greater amount than the usual supply of one season. The period will no doubt arrive when an equilibrium in trade will exist between the city and country, and when the bank notes of both will mutually pass with each other at par. That period may perhaps be distant, but it must arrive, or the trade between the city and country will be ruinous to the latter. The individual who is always in debt will very probably become bankrupt, and the man who purchases and consumes more goods than he can pay for, will be very likely to go behind hand.

NO. III.

In a former number we endeavoured to prove that the causes which have produced, in the middle and southern states, an *appreciation* of specie, were, *chiefly*,

First, a balance of trade due by those states to the eastern states, without the means of paying it in any commodity, which was wanted by the latter, except specie; and,

Secondly, the enhanced value of specie in Great Britain.

The following question now arises: Why was not the price of specie, *from the latter cause*, raised above the value of bank notes at Boston, and other eastern towns, where the banks did not suspend specie payments? This is a question frequently proposed by those who imagine that the difference between bank notes and specie, where a difference exists, is the entire result of the depreciation of the former; but it can readily be answered. The

people of New-England, like every other commercial people, are continually studying their own interests. In making their remittances to Great Britain or elsewhere, they are ever disposed to adopt the mode which they consider likely to be most advantageous. In the case under consideration, two modes presented themselves, the shipment of specie and the remittance of exchange. Specie was *at par;* bills of exchange much *below it;* so that taking into consideration the superior risk, and expenses of the one, with its chance of arriving at a bad market, (contingencies always estimated by the merchant) as much profit could be made upon the *purchase* of the latter, as upon the *sale* of the former. As proof of the fact that exchange was thus far below par, we need only to mention the general principle, *that whenever a balance of trade is due, by one city or nation to another, every substitute for money, assumes a value relative to that balance.* Bills of exchange are of this nature, and as one of the mediums of remittance have, like treasury bills and government stock, supported throughout, this variable character. They were at one time in Boston, twelve and a half per cent. below par, when in Philadelphia they commanded an advance; thus exhibiting a difference equal to the different values of specie, at the two places, or to the agio of exchange.

The high price of specie in England, is occasioned by the demands of government for the payment of their subsidies. The notes of the bank of England, cease to be money when they travel to the continent of Europe, and as the British government can offer nothing for the services of its allied troops, which they would prefer to money, they have been compelled to procure specie at the extravagant rate of twenty-five to thirty per cent. premium. When the war ceases or approaches to a close, specie will depreciate in England; and as it becomes a less profitable article of commerce, it will have a corresponding fall in America. If then, we wish to ascertain at what period our banks will resume specie payments, we must look to Europe, and to the course of trade. As soon as it no longer continues to be in demand for exportation, or for the payment of domestic balances of trade, every body who holds it, will be anxious to get clear of the risk of keeping it, and will therefore deposit it in the banks. It will then resume its old value, and perform its accustomed offices.

As the balance of trade due by the middle to the eastern states, has been one of the causes of appreciating the value of specie, so the enhanced value of specie in the former, has been one of the causes of increasing the agio of exchange. When specie became demanded for exportation, merchants, who were desirous of shipping it, endea-

voured to procure bills upon Boston, for the purchase of it there, where it was at par, and thus has the average rate of exchange upon Boston been equivalent, or nearly so, to the value of specie.

It is more than probable, even if the banks had not suspended specie payments during the war, that they would have been compelled to have done it since. The high price of specie in Great Britain would have afforded a liberal prospect of profit by shipping it. A demand would have been made upon the market for it, and the same effect would have been produced, as by the demand for any other article of merchandise, *an enhancement of its value.* It is well known that in former times, the call for specie for the China and India trades alone, has frequently obliged the banks to withhold the payment of *large* sums, and that specie has often, whilst it was the current medium of exchange, commanded an advance of one or two per cent. What then could have prevented a much more extensive and extraordinary demand, aided by the usual wants of trade, from producing a much more enhanced value, even to the degree of rendering it impossible for the banks to continue the payment of their notes?

Prior to the suspension of specie payments by the banks, balances of trade between our cities at-

times existed. But as these balances could always as far as they were called for, be paid in specie, the agio of exchange did not extend beyond the mere expense and risk of transporting specie from one place to another. This expense too, being of a trifling amount, was usually incurred by the banks for the accommodation of their customers, and thus the course of trade was not generally known or understood. When specie ceased to be paid, distant banks refused mutually to receive each other's notes in deposit, and thus the balance of trade was suffered to stand upon its own merits. This is its present state, and so long as specie is not at par in all the states of the union, so long will favourable or unfavourable agios of exchange continue to exist.

As relates to the eastern states, we are of opinion that, although the agio of exchange may decrease, exchange will seldom if ever be *against* them, so long as they continue to manufacture large quantities of goods for the middle and southern states. Should those latter states supply their own wants by an increase of their own manufactures, or should they be able to import the goods they require cheaper from abroad than from New-England, then exchange will operate against the latter; for the mere productions of their soil and fisheries are not sufficient to enable them to profit by a trade with the other states.

It is in vain to attempt any legal remedy for a supposed evil which has its origin in the natural operations of commerce. As well might an endeavour be made to divert a vast river from its accustomed channel, as to effect the equalization of exchange, in any other mode, than *by the introduction into the country of such an amount of specie, as would be sufficient to meet all demands for foreign markets, and for the payment of all domestic balances of trade.*

The secretary of the treasury, with a view, as has generally been supposed, of effecting an equilibrium in exchange, some time since issued an order, declaring that nothing should be received after the first of August, inst. in payment of duties but specie, treasury bills, and the notes of such banks as would receive treasury bills in deposit *at par.* Whether or no he expected by this measure to effect his object, we will not pretend to declare; but this we know, that the effect of his plan was clearly foreseen by all who fairly understood the subject.—What was the result? Why, that treasury bills, which are not money, but only a substitute therefor, continued to support as they had done before, and as all *substitutes* for money *ever will,* a value bearing a relation to the balances of trade. In Baltimore they were at one time at 3 per cent. *above par,* and at Boston 12 or 15 *below it.* What was the conduct of the banks? In all places where treasu-

ry bills were in the market, at or *above par*, they agreed to receive them, as in Philadelphia, and other cities south of it; whereas in New-York, and all places further eastward, where they were *below par*, the proposition was rejected. The banks which agreed to take them, clearly saw, that so long as they were at or above par, there was no danger of being overstocked with them; whilst those who refused to receive them, as clearly perceived, that if they were to take them, their whole capitals would be liable to be absorbed with them. Had the banks in New-York, *per example*, where they were at three or four per cent. discount, agreed, to receive them *at par*, every treasury bill south of the Hudson, would have been sent there for the sake of the profit of exchange. As in the one case, then, a bank would be blind to its interest, that would refuse to take at par, what it could sell at a profit; so on the other hand, a bank would be equally liable to the imputation of folly, that would agree to receive *at par*, what was only worth three or four per cent. below it. But how is a merchant in New-York to pay his duties, without specie, if the notes of the banks there are not receivable? Why, surely in treasury bills. He wants no specie, neither is it of any consequence to him, whether or no the government will receive bank notes, so long as he can buy in the market treasury bills below par.

This scheme of the secretary, we apprehend, never can effect an equalization of exchange, but it may eventually become a source of profitable speculation to the government. If for instance specie should maintain a high price, and the absolute amount of treasury bills in existence should greatly fall short of the amount required for the payment of the duties, there will be a demand for treasury bills upon the market, greater than can be readily met. Like every other article of value or traffic, they will rise, and even at Boston they may be at par. But what will be their value at other places? Why, they will then bear as they do now, an exact relation to the balance of trade; and it it is possible that at Washington, should the present balance continue due to the eastern states, they may be at ten or twelve per cent. above par. The government then, instead of issuing new bills at *par*, might sell them at the places where they wanted funds, *at an advance*, and thus profit by the course of trade.

We cannot see, with some honest calculators, how the continuance of the present state of things can affect the interests of the country. If specie has been withdrawn from circulation, it is because it has been occupied abroad in a more profitable employment than it was engaged in at home. Its exportation has added to the stock and to the wealth

of the nation, by the purchase of merchandise abroad, worth more at home than the specie itself. To be sure we are subject to some inconveniencies in our transactions at market, and in petty dealings; but as we become accustomed to the use of paper money, the disadvantage will vanish. All large mercantile negociations are conducted as they have heretofore been, by bank notes, or checks upon banks. As to the agios of exchange, where balances are due, they must of necessity continue; but before long they will be so completely understood, as to occasion no embarrassment. The merchant who sells his goods for foreign bank notes, will add to the price of his goods the amount of the loss he sustains upon the notes; and the purchaser will eventually discover, that the difference which he must pay for his goods, at a place where his bank notes are *at a discount*, and at a place where they are *at par* is at least equal to the agio upon his notes. As to the solidity of the banks, the suspension of specie payments has produced no alteration. Although banks do not pay specie for *any* of their notes, yet the time never has been when they could pay specie for them *all;* for a bank that keeps on hand a sufficiency of specie to meet all its debts, can never divide six per cent. interest. The very principle upon which it is founded requires that it should trade beyond its capital. But the banks have the same means of discharging all their notes, as they

ever had, viz. claims upon individuals who have borrowed their *money*, and who are now as able to pay as they ever were, if not in specie, in merchandise and property of equal value.—Some banks indeed may be insolvent, but that insolvency cannot arise from their mere inability to pay specie, but from the inability of their debtors to pay in any thing.

NO. IV.

It has been frequently asserted, and believed too, by many honest people who are not always in the habit of tracing effects to their causes, that had the charter of the late bank of the United States been renewed, we should have experienced none of those difficulties to which we are now exposed from the non-payment of specie, and by the profitable or unprofitable agios of exchange. This is a gross error. Although we were amongst the number of those who were entirely favourable to the renewal of that charter, as a measure calculated to afford great mercantile facilities, yet we feel no hesitation in declaring, that had the bank of the United States been continued, it would, like the rest of the banks, have been brought to a stoppage of specie payment.

We have shown that prior to the increase in value of specie, the banks had on hand the smallest possible amount which could enable them to conduct their operations. We have shown the reasons why this was the case, and we challenge contradiction when we declare that, in latter years,

the generality of banks have at no time been prepared to meet any sudden and extensive call for specie, such as has been lately experienced by the demand for the British market. We, therefore, again repeat, that with the quantity of specie which was in the country at the commencement of, and during the continuance of the war, it was utterly impossible for the banks to have avoided a stoppage. Some particular banks, whose loans were limited, might have formed exceptions, but the great mass of them in town and country would have been inevitably brought to a suspension. Dr. Adam Smith, in his Treatise upon the Wealth of Nations, supposes that in England a bank, with *one fifth* of its capital in specie, would be able to meet all the demands which would usually be made upon it. Intelligent men in our own country, have made a similar estimate in relation to our own banks, and we therefore consider it highly probable, that upon an average, the specie capital in the vaults of our banks (independent of the amount of deposits which are liable at any time to be drawn out) has not exceeded the above ratio. What reason, then, is there for supposing that in the case of an extraordinary call upon the banks for the payment of *more* than one fifth of their notes they could have been able to meet it? But the call which has lately existed has been not only for *something more* than the fifth part of their

capitals, but for an amount equal, perhaps, to the *half* of them, and it would, therefore, be absurd to suppose that they would not have been brought to a stoppage. The late bank of the United States could not have avoided the same fate, and then what could she have done towards the equalization of exchange? Is it to be presumed that the directors of that institution would have been so blind to the interests of their stockholders, as to give *par* for a bill upon Baltimore (which would be the case if bills were *collected* in the usual mode) that was worth only in the market two or three per cent. *below par?* Would individuals, on the other hand, give to the bank *at par* a bill upon Boston, worth fifteen per cent. advance? Surely not. It therefore follows, that neither the bank of the United States, nor any other bank, without absolute injury to itself, could have attempted to effect an equalization of exchange.

Without any more reason in their favour, than those above alluded to, there is a great portion of our citizens who imagine that the establishment of a *national bank* will remedy the evils so loudly complained of. This, we think, is equally an error, and we again assert, that nothing can restore an equilibrium in exchange at places between which and others, balances exist, but the introduction into the country of such an amount of specie as will be ade-

quate to meet all demands for foreign commerce, and all claims for balances of trade.

We will suppose a national bank to be established, with a capital of thirty millions of dollars—of which *five* or *ten* are to be in specie. The notes of this bank are to be issued, as all bank notes originally are, to persons who borrow their money. These notes will command the specie upon being presented for payment—and specie in the market, as an article of merchandise, is worth an advance of one or more per cent. What will be the consequence?—Why that the first five or ten millions of dollars (though, by the by, we do not believe that the latter amount could be easily collected in the country) in *notes* which this bank would first issue, would be no sooner abroad than they would be returned for payment.—The bank, then, could either discount no more, or if it did, it must stop specie payments: for, depend upon it, if money will bring more out of doors than *par*, not a dollar would be deposited again in the bank after it was once issued. This demand could not by any possibility be arrested, for it would arise from that constant practice of consulting his interest, which actuates every man in the community. But it might be said, let the bank issue only *small amounts* in specie: and what is this but suspending payment of its notes? And pray what advantage could be de-

rived from this measure but putting off the evil day?—Every single dollar would be sold in the market at its advanced price, and the only difference would be, that the bank would be drained by piece-meal in a year or two, instead of being brought to a stoppage in as many months. But if it refuses to pay any part of its notes, it ceases to be such a bank as it was intended to be, and the community would derive no benefit from its emission of specie, inasmuch as the specie, when it was once emitted, would cease to perform the functions of money.

And now, as to its tendency to effect an equalization of exchange. We have shown that wherever balances of trade exist, all *substitutes for money* bear relative values, proportioned to that balance. It is the case with treasury bills, government stock, bills upon foreign countries, and even with specie itself (when that ceases to be employed as the current money.) Why should not then the notes of a national bank be effected in a similar manner? They are no more *money* than any of the articles above enumerated. They are pledged upon no better basis than the credit of the government, and even should they be declared to be receivable in payment of duties, they will stand upon no higher grounds than treasury bills, which are invested with the same character. The notes of a national bank then, will inevitably bear different

values in different places, and those differences of value will be proportionate to the existing balances of trade.

Specie has at all times been occasionally shipped to England, where, in the ordinary times of peace, it has usually been worth several per cent. above *par*. These shipments have been made at times when bills of exchange upon London have been at such a rate as afforded a less profitable mode of remittance than specie. When the same causes operate, the same results will ensue. But should bills depreciate as much below par as specie in England is above, taking into the calculation the expenses of shipping it, then an equilibrium in that particular trade will be effected, and specie will be here at par, unless some other demand should operate to keep it up. But a great depreciation of bills is not likely soon to take place. We shall, from the scarcity of our stock of British goods on hand, probably be obliged to import for a year or two to come, greater supplies than we will be able to pay for in our annual exports. The balance will in that case continue to be against us—bills will be above par, and with them the price of specie.

Should specie continue to maintain so high a price here, as to render it more advantageous for foreigners and others to import it for the purchase

of American produce, than to ship us other foreign commodities, a greater amount might be introduced into the country than was required to supply the demand. Its abundance would, in that case, depreciate it and it might possibly be reduced to par. But this result is not likely soon to occur, or at least so long as the demand for the India and China trade continues as great as it is.

When specie gets to par, either from its abundance or from the cessation of the demand (either of which causes will effect it) *then, and not until then*, can the banks, consistently with their own interests, recommence the payment of specie.—If they do it before, all their specie will be withdrawn, and they must cease to discount. Such an event would deprive their stockholders of an interest for their money, and embarrass their debtors, without being productive of one public beneficial end. This is the situation of the banks in Boston. They can no longer freely discount, for no sooner do they issue a note than it is presented for payment. When we, therefore, hear of their paying their notes in specie, we are to recollect that they have few in circulation, and that the necessity of paying their notes in hard money, occasions more embarrassments to mercantile transactions than are experienced in any city of the union. If the legislature of Massachusetts has made rigorous laws, their constituents pay dearly for them.

In Great Britain specie has for a long time been unknown as a circulating medium. The notes of the bank of England are a legal tender for all sums above one pound sterling. Their mercantile transactions have thus far been conducted without specie, and without producing any serious effect upon the interests of trade. And there is no reason why in this country we should be ruined for the want of it—nay, is not the wealth of the nation promoted by the substitution of paper money for coin? Is not that vast capital of the nation, which, without the use of bank notes, would be employed merely as an *unproductive instrument* of *exchange*, more profitably employed in commerce? Has not every silver dollar, withdrawn from circulation by the substitution of a paper dollar, ten or twenty years ago, by its *annual* employment in the shape of merchandise, produced a revenue to its owner, and consequently to the country, equal to some hundred fold of its original value, or what it would be worth to-day, had it never been sent abroad? Surely it has, and it therefore cannot admit of a doubt that, as the use of paper money has been greatly productive of wealth to the community heretofore, it must continue to be so. The fewer pieces of coin we have in circulation as money, the greater is the amount of the national capital employed in *productive* uses—and the greater the amount of

specie we have in currency, the less is the amount we have profitably employed.

In our present circumstances, there is, however, one evil which is to be dreaded. The failure of a number of banks would diminish greatly the general confidence in bank notes, and with it the facilities which we now experience from their circulation. The evil we allude to is, that banks, in consequence of the absence of the usual check, which existed when they paid their notes in specie, may be disposed to trade to too great an extent beyond their capitals. Should they do this, for the sake of increasing the rate of their dividends, they may be liable to the ruin which is often attendant upon overtrading. But should they adhere to the principle, by which all prudent and honest directors should constantly be governed, of *issuing no more notes, than they would feel themselves perfectly safe in doing had they continued to pay specie*, there need be no apprehension of their solvency. Their debtors will now be as well able to pay them, as they ever were, and their creditors will have as ample security as they formerly had.

NO. V.

We shall now proceed to examine into the effects which will be produced upon the commercial interests of the city, by the late establishment of the numerous country banks.

The natural trade between the country and its neighbouring cities, is a mutual exchange of commodities. That portion of the rude or manufactured produce of the soil which is over and above what is wanted by the inhabitants of the country, and which therefore cannot be consumed by them, is sent to the cities for sale, or in other words, to be exchanged for some article of manufacture or of foreign growth, which is more desirable to the people of the country than the commodities which they raise. In this exchange, however, in most cases, money intervenes. The country produce is sold for cash, and that cash after having been circulated in the country, is again returned to the same or to other cities to be exchanged for merchandise, so that the exchange, although interrupted, still exists. This mutual exchange,

in order to be profitable to the parties, must be limited by the extent of the means of the country—that is, the inhabitants of the country *collectively*, ought not to purchase from the city, goods to a greater amount than the value of the produce which they are able to send to market. If they do so, a balance of trade will exist against them, and their cash will be withdrawn, inasmuch as what they cannot pay for in commodities, must be paid for in money.

Cities can seldom long be indebted to the country. If the amount of produce sent to market greatly exceed the value of the articles of necessity and comfort, required in part exchange for them, the balance being redundant wealth, will most probably be invested in articles of luxury and extravagance, with which cities so generally abound. But the country may be indebted to the cities for long periods together. The desire of possessing splendid and fashionable commodities, assisted by the facility of procuring them upon credit, has a natural tendency to run the country in debt to the cities, and if these demands exceed the resources of the country, the balance must remain unpaid, and may long continue so. Prudence and policy should therefore unite to effect an equilibrium, and if the country only purchases from the cities what it is at any time able to pay for, an equalization of exchange must exist.

Much of the trade of the world is carried on upon credit. Credit is that operation by which one man who has not a sufficiency of capital, is enabled to borrow a part of another man's, who has it to spare. A man in good repute finds no difficulty in purchasing goods to ten or twenty times the amount of his capital, for the seller, if he supposes that the buyer has a sufficiency of his own to enable him to sustain probable losses upon his speculations, is willing to lend his capital rather than keep it unproductive or unemployed. Formerly, the principal part of the goods sold by the merchants of cities to those of the country was upon credit. The country then had not sufficient capital of its own to trade upon, and the cities found it their interest to furnish it. But as the capitals of the former increased, less was required from the city upon credit, and as banks in the country became more numerous, and created an artificial capital of money, still less was demanded—and now, it not unfrequently happens, that a young trader about to commence business in the country, is enabled to pay for the principal part of his stock in cash, which the establishment of banks in the country has rendered him capable of doing.

The natural operation of a bank is to lend money to those persons who are best known to

its directors. No individuals are more likely to borrow than merchants, because with the cash, they are able to buy their goods upon better terms than they can upon credit, and if they must run in debt, their interest induces them to do it where it would be most beneficial to them. Hence many of the country merchants contract debts with the banks in their neighbourhood, instead of contracting them with the city merchants. The extent of this transfer of debt, is great, and can be best ascertained by the amount of country bank notes that are sent to the cities, *for most of them are only representatives of an equal amount of credit, which did the country banks not exist, would be required from the city merchants.* It follows then, that just to the extent that the banks in the country assume debts which would otherwise be owing to the cities, are they advantageous to the commercial interests of the latter. It is better for the city merchants to credit a bank, and thereby have the responsibility of many individuals, than to credit one individual.

But it may be urged that when the country bank notes come to the city, they can only be converted into current money, by the sacrifice of three or four per cent. discount. True, but this is a temporary evil, and cannot always exist. And pray who pays eventually this discount? Surely the

consumer of the article purchased. If the merchant sustains it at the time, he either charges it upon the price of his goods, or is willing to bear it as a compensation allowed to the purchaser, for the exemption which he thereby obtains from the risk of trusting him; for it must always be kept in mind, that of the price of all goods sold upon credit, a component part of it is a premium for the risk incurred by the seller. If goods are sold for cash, that premium is deducted, and hence in all trades a discount is made for ready money. The merchant who sells, in the long run although he *appears* to pay it, is no more the *real payer*, than he who imports and enters his merchandise at the custom house is the real payer of the duties upon it. *Sometimes*, indeed, he pays it, as where he is obliged to receive country notes in discharge of *a debt*, and where consequently no opportunity is afforded him of adding it to the price of his goods. But in this case there is no compulsion. If he receives the notes, it is with the view of rendering his debt secure, an advantage, for which he is willing to pay something, or for the purpose of securing the custom of his friend, out of whom he expects, upon some future transaction, to repair his loss. This view of the subject, we apprehend, will appear sufficiently clear to all who will take the trouble of investigating it, and we there-

fore, so far from regarding the country banks as prejudicial to the interests of the city, consider them as highly advantageous.

With respect to the *stability* of the country banks, we shall merely say that if they are prudently and cautiously conducted, no danger need be apprehended of their solvency. In their loans of money they have opportunities of judgment as to the circumstances of borrowers, which are perhaps superior to those possessed by the city banks. They are generally acquainted with the nature of the business of their customers, their modes of life, their profits, their debts, and their possessions, and hence are able to form a more correct estimate of their claims to credit, than the directors of banks in cities, where so much artificial appearance of prosperity is exhibited.

The country banks in many instances, as well as the persons who bring their notes to the city, have expressed a degree of indignation at the conduct of the city banks in refusing to receive counter notes in deposit. They urge that the latter could do so without prejudice to their interests, inasmuch as the same notes, having thereby a general circulation, would be equally negociable, with their own, and could equally well be issued by them. Now

what is the true nature of this complaint? Why that the city banks refuse to give money for what is *not money*—that they refuse to give their own notes in exchange for the notes of other banks, by doing which they would incur the risk of the insolvency of other people, and enable them to trade upon their credit, *without any compensation.* It would really be a fine thing for the country banks, if the city banks, at a time when the balance of trade against the country occasions an agio of exchange of three or four per cent., would agree to receive their notes at *par.* It would also be an advantageous thing for the people in the country, if the city banks would consent to take upon themselves all the loss upon exchange. But such a system would be ruinous to the city banks. If they were to adopt it, they would be inundated with country notes, without the possibility of passing them away again. The very persons indeed who would deposit them, viz. the merchants and traders who sell to the country, would not receive them again, for if they wanted bank notes to remit to distant places, or for other purposes, those of the city would answer their purposes best. And surely those who did *not* deposit them, would be unwilling to receive them, inasmuch as the notes of the city would answer all their objects much better. How then could the city banks dispose of the

country notes?—The banks whose notes they were, could not pay them in notes of the city banks, for whilst the balance of trade is against the country, the city notes very rarely leave the town. They certainly do not in sufficient quantities to balance all the country notes, for if they did there would be an equilibrium of exchange. We are therefore at a loss to conjecture what views the country banks can have of the subject, when they entertain so unreasonable an expectation, as that the city banks should accommodate them by an arrangement which could only benefit one party, and that too at the expense of the other. As soon as the balance now due by the country to the city is paid, and an equilibrium is effected, then there can be no doubt that the banks will accommodate the customers of each other, for then as many city notes will be sent to the country as will meet the country notes sent to the city. Until then, the inhabitants of the country have no ground of complaint. As well might the Philadelphia merchant expect the British merchant to whom he is indebted, to receive payment of his debt here at *par*, when bills of exchange, by which alone he can transmit the amount to England, would cost him *seven per cent. above par.*

But there is another reason why the country banks and merchants should withhold their complaints, and that is, that it is not *they* who bear the loss upon exchange. It is, as we have said above, the consumers of the merchandise purchased with the country notes. It is *they* who pay the duties, the expenses and all other charges which accrue upon the purchase of goods, and therefore it happens in this case, as in many others, that those who have the least cause, make the most difficulty.

NO. VI.

It has been stated that the causes which originally occasioned a heavy balance of trade to be due by the middle to the eastern states were—the great amount of domestic manufactures, and of foreign merchandise, with which, the latter, from their industry in one case, and their early importations in the other, have been enabled to supply the former. It might reasonably now be supposed, since the middle states have made their own importations *direct*, that *the latter* cause of creating a balance should by this time have ceased to operate, inasmuch as the same kind of goods are now imported into all the Atlantic states alike. The agio however still continues as formerly quoted, and from what additional cause we shall endeavour to explain.

The Boston and other eastern banks are compelled by law, as we have already stated, to pay their notes in specie, and are liable in case of default, to an exorbitant penalty. The consequence has been a reduction of the amount of their loans, and consequently of their notes, to such a degree

as to withdraw from circulation an immense amount of the current medium which had before been employed in the ordinary occupations of commerce. This measure, by reducing the amount of money to which the usual extent of mercantile transactions had been accustomed, naturally *appreciated* its value, and restricted with the means of the merchants and manufacturers, their capacity to trade as extensively as before. Those who had been in the habit of purchasing from the importers, were fearful of embarrassment, should they enter as largely into engagements as formerly, whilst the trade of the country, from the difficulty of affording the accustomed credit was diverted into other channels. The diminution then of the extent of the demand upon a well stocked market occasioned a nominal depreciation of almost every commodity. Real estate would not command prices nigh its former value—merchandise fell greatly below its usual rate—whilst money in the market was worth *two per cent.* a month. This is the existing state of things at Boston. Now if the difference between the nominal prices of goods at Boston and at another city was simply equal to the agio of exchange between the two places, then their *real* prices would be the same, and there would be no inducement for their transportation from one place to another, inasmuch as what would be apparently gained in

the price would be lost in the exchange, and *vice versa*. But this is not the case. The great reduction of the circulating medium at Boston, has occasioned a nominal depreciation of the value of goods *greater* than the agio of exchange. Facts speak stronger than arguments. We are acquainted with one house who have lately purchased merchandise at Boston to the amount of an hundred thousand dollars, at a price which, after paying the expenses and risk of transportation, and the disadvantage of exchange, is *ten per cent. cheaper* than it could be purchased at Philadelphia. Here then is to be found an additional and a weighty cause of the continuance of the balance of trade, for every dollar thus becoming payable at Boston, must require a remittance to meet it, and so long as the merchants continue to study their own interests, so long will they purchase their goods at the places where they can obtain them upon the most advantageous terms. From this view of the subject, it is manifest that the operation of the rigid laws of Massachusetts, is highly injurious to the commerce of their towns, and we do not see, that the boasted capacity of their banks to pay a *few notes* in specie, renders their situation more enviable than our own.

We have stated that the arrangement made by the secretary of the treasury, with the banks in certain cities to receive treasury bills in deposit at par, will not effect an equalization of exchange,

and that treasury bills, so long as balances of trade exist, will bear, at different places, relative values proportioned to such balances. In opposition to this theory it is urged, that although it might prove correct where a small amount of treasury bills was in circulation, yet if an immense sum were to be issued, the desired equilibrium would be accomplished. We take it for granted that by an *immense sum* is to be understood such an amount as would not affect the credit of the government, and which might by possibility be issued; for we can hardly suppose that the government would undertake to issue a medium that would subject them to the payment of interest, merely for the sake of equalizing exchange. With these premises admitted we reply, that an equilibrium might be effected *for the moment*, but certainly for no long period. The treasury bills thus issued would soon be withdrawn from circulation. Their *accumulating* character (which alone has induced the banks to receive them) would render them, as now, an object of universal demand. Merchants instead of keeping balances in bank drawing no interest, executors, administrators, assignees, trustees, and others holding funds liable to be called for, wealthy farmers and citizens who are in the practice of keeping money by them, would all invest their cash in treasury bills; and even the banks themselves who would receive them in exchange for their

notes, *which bear no interest*, would be loth to part with them again. Thus then they would disappear, until an appreciation of their value in the market would convert them into an article of traffic, and thus destroy the object which was expected to be attained.

In the foregoing essays, we have endeavoured to point out the causes which have produced the existing state of our circulating medium. To prescribe a remedy for the evil is not for us to pretend. National diseases, originating in the natural operations of commerce, will generally cure themselves, and if the merchants are left alone, the simple regard for their own interests will, in time, effect what it will be impossible for legislative interference to accomplish. A prohibition to the exportation of specie, we are disposed to conjecture, as one of the means of correction which have been proposed, will have no better tendency, than to trammel the freedom of commerce, and to enrich the fraudulent at the expense of the honest citizen.